

DRAFT

AGENDA ITEM #3912

WATER/FLC/SNR/PTL:jjj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

**RESOLUTION NO. W-4502
October 7, 2004**

R E S O L U T I O N

**(RES. W-4502), UNION PACIFIC RAILROAD COMPANY,
KEENE WATER SYSTEM (UPKWS). ORDER AUTHORIZING A
NEW MEMORANDUM ACCOUNT TO TRACK THE COST
ASSOCIATED WITH WATER HAULING.**

SUMMARY

This resolution establishes a memorandum account to track the cost associated with water hauling for Union Pacific Railroad Company's Keene Water System.

BACKGROUND

By Advice Letter No. 1, dated August 16, 2004, UPKWS requests a memorandum account to track the cost associated with water hauling. The Keene Water System is currently incurring costs to haul water due to a drop in production from wells located in the Keene area.

The Keene Water System obtains its water supply from three wells located in Keene and Woodford, in Kern County. These wells are hardrock wells meaning that the water enters these wells through fissures in the rock rather than from an aquifer.

Following the issuance of Decision (D.) 02-04-017 declaring the Keene Water System to be a public utility under Public Utilities Code 2701 and the issuance of

D.03-10-073 ordering UPKWS to file a general rate case application, UPKWS is currently preparing its workpapers to file an application. UPKWS currently charges customers \$4.00 per 1,000 gallons of water used. UPKWS serves a total of 47 individual connections in the Keene area.

DISCUSSION

On July 30, 2004, a drop in water production forced UPKWS to begin hauling water from Tehachapi to supplement its supply. By July 31, 2004, UPKWS had discovered a dramatic drop in the production from the three wells that supply the system. Two wells have been running dry repeatedly and the third well, which used to supply approximately 50 gallons per minute, is now supplying only 14 to 15 gallons per minute. The decrease in production has continued in August.

UPKWS is currently hauling between 13,800 and 18,400 gallons of water per day from Tehachapi to Keene. UPKWS has sent a letter to its customers asking them to conserve water.

The cost of hauling water from Tehachapi to Keene is an extraordinary and significant expense for UPKWS. UPKWS requests authorization to establish a memorandum account to track the costs associated with the hauling of water.

A memorandum account is not a guarantee of eventual recovery of expenses, nor is it carried as a regular account under the uniform system of accounts for water utilities. It is carried “off the books”, as a memorandum account. Commission policy on memorandum account treatment has always been that the burden of proof of the reasonableness of expenses charged to the account is the responsibility of the utility requesting reimbursement of such expenses.

Also, the Commission said in the Southern California Water Co. Headquarters case, Decision 92-03-094 (March 31, 1992) 43 Cal. P.U.C. 2d600:

“It is a well established tenet of the Commission that ratemaking is done on a prospective basis. The Commission’s practice is not to authorize increased utility rates to account for previously incurred expenses, unless, before the utility incurs those expenses, the Commission has authorized the utility to book those expenses into a memorandum account or balancing account for possible future recovery in rates. This practice is consistent with the rule against retroactive ratemaking. (Emphasis in original.)”

Therefore, we will only allow the tracking of those expenses incurred after the establishment of the account.

NOTICE AND PROTESTS

As this resolution is for the establishment of a memorandum account, public notice is not required. Public notice for recovery of the memorandum account balance will be provided when the utility requests recovery. There was one protest to Advice Letter No. 1 sent September 11, 2004. The customer objects to the establishment of such an account on the following grounds: (1) inadequately designed system; (2) inadequate maintenance of the water system; (3) fiscal prudence; (4) UPKWS required to haul water to avoid breach of existing agreements; and (5) no collection system.

UPKWS must notice its customers when requesting amortization. At that time, the customers can provide public input on the reasonableness of the utility's recovery of memorandum account.

COMPLIANCE

Pursuant to D.03-10-073, UPKWS is currently preparing its workpapers to file a general rate case application. Service is satisfactory.

FINDINGS

1. UPKWS is currently hauling between 13,800 and 18,400 gallons of water per day from Tehachapi to augment a decrease in production from the water wells.
2. The cost of hauling water is an extraordinary and significant expense for UPKWS.
3. UPKWS should be allowed to establish an extraordinary expense memorandum account.
4. The Commission has approved memorandum accounts for water utilities

for extraordinary expenses that could not have been foreseen in the last general rate increase.

5. The establishment of a memorandum account does not guarantee recovery of the expenses booked to that account.
6. The burden of proof as to the reasonableness of any recovery is on the utility.
7. This is an uncontested matter subject to the public notice comment exclusion provided in PU Code Section 311(g)(3).

THEREFORE IT IS ORDERED THAT:

1. Union Pacific Railroad Company's Keene Water System is authorized to establish a memorandum account to track the costs associated with water hauling.
2. Union Pacific Railroad Company's Keene Water System shall record the actual incurred costs from the effective date of this resolution.
3. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on October 7, 2004; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director